

128169

BY THE COMPTROLLER GENERAL

Report To The Congress

OF THE UNITED STATES

Reviews Of The Audits Of The Financial Statements Of The National Credit Union Administration's Operating And Share Insurance Funds For The Year Ended September 30, 1983

GAO audited the fiscal year 1983 financial statements of the National Credit Union Administration's Operating and Share Insurance Funds by reviewing the independent certified public accountants' work and reports. Except for not mentioning the absence of a statement of changes in financial position for the Share Insurance Fund, GAO found nothing to indicate the opinions of the certified public accountants are inappropriate or cannot be relied on.

The Share Insurance Fund did not follow generally accepted accounting principles in accounting for the cumulative effect of a change in providing for estimated losses from supervised credit unions. In addition, the certified public accountants were unable to satisfy themselves as to the amount of both the provision for losses from supervised credit unions, and the provision for estimated losses on asset and merger guarantees.

In the opinion of the Administration's independent certified public accountants, except for the qualifications mentioned in the previous paragraph, the financial statements present fairly the Funds' financial positions as of September 30, 1983, the results of their operations, and the changes in their financial positions for the year then ended, in conformity with generally accepted accounting principles applied on a consistent basis.



128169



GAO/AFMD-85-18
SEPTEMBER 30, 1985

033515

Request for copies of GAO reports should be sent to:

**U.S. General Accounting Office
Document Handling and Information
Services Facility
P.O. Box 6015
Gaithersburg, Md. 20877**

Telephone (202) 275-6241

The first five copies of individual reports are free of charge. Additional copies of bound audit reports are \$3.25 each. Additional copies of unbound report (i.e., letter reports) and most other publications are \$1.00 each. There will be a 25% discount on all orders for 100 or more copies mailed to a single address. Sales orders must be prepaid on a cash, check, or money order basis. Check should be made out to the "Superintendent of Documents".



COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON D.C. 20548

B-215401

To the President of the Senate and the
Speaker of the House of Representatives

This report presents the results of our reviews of Ernst & Whinney's audits of the fiscal year 1983 financial statements of the National Credit Union Administration's Operating and Share Insurance Funds. Our reviews were made under provisions of the Federal Credit Union Act (12 U.S.C. 1752a(f) and 1789(b)(2)), which authorizes us to audit the Administration's financial transactions.

Our reviews were conducted in accordance with generally accepted government auditing standards. To avoid unnecessary duplication and expense and make the most efficient use of our available resources, we audited the Funds' financial statements by reviewing the work and reports of the Administration's independent certified public accountants. To review the reasonableness of the auditors' work and determine the extent to which we could rely on it, we

- interviewed the Administration's officials to obtain information about the Administration's operations, including the maintenance of its financial records and the preparation of its financial statements;
- interviewed the auditors to identify the audit approach used and the methods used to control the quality of audit work;
- obtained information about the qualifications and independence of the auditors;
- reviewed the Administration's financial statements and the auditors' reports for compliance with the reporting requirements of generally accepted accounting principles and generally accepted auditing standards; and
- reviewed the auditors' workpapers to determine:
 - o the nature, timing, and extent of audit work performed;
 - o whether the audit quality control methods identified by the auditor were actually used;
 - o whether there was a proper study and evaluation of the Administration's internal controls; and

- o whether the auditors tested transactions for compliance with applicable laws and regulations.

We found that, except for not mentioning the absence of a statement of changes in financial position for the Share Insurance Fund, the audits were conducted in accordance with generally accepted auditing standards.

In the opinion of Ernst & Whinney, the Operating Fund's financial statements present fairly its financial position at September 30, 1983, and the results of its operations and the changes in its financial position for the year then ended, in conformity with generally accepted accounting standards applied on a basis consistent with that of the preceding year.

Also, in the opinion of Ernst & Whinney, except for (1) a departure from generally accepted accounting principles in accounting for the cumulative effect of a change in providing for estimated losses from supervised credit unions and (2) the lack of sufficient data in support of the provisions for losses from supervised credit unions, and asset and merger guarantees, the Share Insurance Fund's financial statements present fairly its financial position at September 30, 1983, and the results of its operations for the year ended September 30, 1983, in conformity with generally accepted accounting principles applied on a consistent basis.

The National Credit Union Administration did not include a statement of changes in financial position among the financial statements of the Share Insurance Fund. Ernst & Whinney stated that because the 1981 balance sheet was not audited and the 1982 balance sheet was not restated for the cumulative effect of the change in method of accounting for losses from financially troubled credit unions, a meaningful 1982 statement of changes in financial position could not be prepared with which to compare the 1983 statement of changes in financial position. The auditors asserted that a 1983 statement of changes in financial position was not necessary for fair presentation.

Generally accepted auditing standards require that, when a statement of changes in financial position is omitted, the auditors qualify their opinion and explain the basis for their qualification in the audit report. We believe the Share Insurance Fund should have included among its financial statements a statement of changes in financial position. Further, while certain elements of the fiscal year 1983 statement of changes would not be comparable with fiscal year 1982 amounts, we believe the remaining information would have been meaningful and should have been presented. We have observed that the National Credit Union Share Insurance Fund's 1984 Annual Report does contain a statement of changes in financial position for fiscal year 1983.

Except for not mentioning the absence of a statement of changes in financial position for the Share Insurance Fund, we found nothing to indicate Ernst & Whinney's opinions on the Administration's 1983 financial statements are inappropriate or that they cannot be relied on. We believe that the financial statements, together with Ernst & Whinney's opinions and our review of that work, constitute a dependable basis for Congress' oversight of the Administration's financial position.

Ernst & Whinney did not prepare the reports on internal accounting controls and compliance with laws and regulations required by generally accepted government auditing standards because its contract with the Administration did not require such reports. However, Ernst & Whinney did study and evaluate internal accounting controls and test transactions for compliance with key laws and regulations. Its work did not disclose any material internal control weaknesses or noncompliance with laws and regulations. The opinion and financial statements are in appendix I.

We are sending copies of this report to the Director of the Office of Management and Budget, the Secretary of the Treasury, and the Administration's Board of Directors.



Comptroller General
of the United States



Ernst & Whinney

1225 Connecticut Avenue, N.W.
Washington, D.C. 20036

202/862-6000

Board of the National Credit Union Administration
Washington, D.C.

We have examined the balance sheet of the National Credit Union Administration - Operating Fund as of September 30, 1983, and the related statements of revenues, expenses and change in fund balance and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the financial position of the National Credit Union Administration - Operating Fund at September 30, 1983, and the results of its operations and the changes in its financial position for the year then ended, in conformity with generally accepted accounting standards applied on a basis consistent with that of the preceding year.



Washington, D.C.
January 26, 1984

BALANCE SHEET

NATIONAL CREDIT UNION ADMINISTRATION - OPERATING FUND

September 30, 1983

ASSETS

Cash	\$	101,620
Investments, net of unamortized discount of \$247,913--Note C		11,563,087
Employee advances receivable		273,655
Other accounts receivable		96,705
Due from NCUA - Insurance Fund--Note D		344,321
Furniture and equipment, net of accumulated depreciation of \$1,956,505		1,394,762
Leasehold improvements, net of accumulated amortization of \$428,029		307,181
Prepaid expenses		<u>119,171</u>
		<u>\$14,200,502</u>

LIABILITIES AND FUND BALANCE

Accounts payable	\$	471,902
Accrued salaries and benefits		726,217
Accrued annual leave		1,596,238
Accrued employee travel		404,278
Deferred revenue		<u>5,590,546</u>
		<u>8,789,181</u>
	TOTAL LIABILITIES	
Fund balance		<u>5,411,321</u>
		<u>\$14,200,502</u>

See notes to financial statements.

STATEMENT OF REVENUES, EXPENSES AND CHANGE IN FUND BALANCE
NATIONAL CREDIT UNION ADMINISTRATION - OPERATING FUND
For the Year Ended September 30, 1983

REVENUES	
Operating fee revenue	\$22,335,498
Investment income	<u>1,087,252</u>
	23,422,750
EXPENSES	
Employee salaries and benefits	14,085,874
Employee travel	1,916,351
Rent, communications, and utilities	2,483,636
Other administrative	1,105,577
Contracted services	<u>889,585</u>
	20,481,023
	EXCESS OF REVENUES OVER EXPENSES
	2,941,727
Fund balance at beginning of year	<u>2,469,594</u>
	FUND BALANCE AT END OF YEAR
	<u><u>\$ 5,411,321</u></u>

See notes to financial statements.

STATEMENT OF CHANGES IN FINANCIAL POSITION

NATIONAL CREDIT UNION ADMINISTRATION - OPERATING FUND

For the Year Ended September 30, 1983

SOURCES OF CASH

Excess revenues over expenses	\$ 2,941,727
Charges (credits) to net income not affecting cash:	
Depreciation of furniture and equipment	504,595
Amortization of leasehold improvements	142,950
Net loss on disposal of furniture and equipment	62,237
Increase in:	
Accrued salaries and benefits	42,981
Accrued annual leave	27,569
Prepaid expenses	(63,782)
Decrease in:	
Accounts payable	(645,778)
Accrued employee travel	(123,364)
Deferred revenue	(288,831)
TOTAL FROM OPERATIONS	<u>2,600,304</u>

Decrease in:	
Due from NCUA - Insurance Fund	8,604,452
Employee advances receivable	170,402
Other accounts receivable	172,315
TOTAL SOURCES	<u>11,547,473</u>

USES OF CASH

Increase in investments	11,563,087
Purchase of:	
Furniture and equipment	95,009
Leasehold improvements	51,310
	<u>11,709,406</u>

DECREASE IN CASH \$ (161,933)

Beginning cash balance	\$ 263,553
Decrease in cash	<u>(161,933)</u>
Ending cash balance	<u>\$ 101,620</u>

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

NATIONAL CREDIT UNION ADMINISTRATION - OPERATING FUND

September 30, 1983

NOTE A--ORGANIZATION AND PURPOSE

The National Credit Union Administration - Operating Fund (the Fund) was created by the Federal Credit Union Act of 1934. The Fund was established as a revolving fund in the United States Treasury under the management of the National Credit Union Administration Board for the purpose of providing administration and service to the Federal Credit Union System.

NOTE B--SIGNIFICANT ACCOUNTING POLICIES

Investments: The Federal Credit Union Act permits the Fund to make investments in United States Government securities or securities guaranteed both as to principal and interest by the United States Government. Investments are stated at cost adjusted for amortization of premium and accretion of discount.

Depreciation and Amortization: Furniture and equipment and leasehold improvements are carried at cost. Depreciation and amortization are computed by the straight-line method over the estimated useful lives of furniture and equipment and leasehold improvements. Depreciation and amortization expense for the year ended September 30, 1983 was \$504,595 and \$142,950, respectively.

Deferred Operating Fee Revenue: The Fund assesses each Federally chartered credit union an annual fee based on the asset base as of the preceding December 31. Fees are recognized as revenue ratably during the calendar year in which they are assessed. Fees assessed but not yet recognized as revenue are classified as deferred revenue.

Income Taxes: The Fund is exempt from Federal income taxes under Section 501(c)(1) of the Internal Revenue Code.

NOTE C--INVESTMENTS

Investments consisted of U.S. Treasury Bills with a cost of \$11,563,087 and a market value of \$11,575,560.

NOTE D--TRANSACTIONS WITH THE NCUA - INSURANCE FUND

Certain administrative services are provided by the Fund to the National Credit Union Share Insurance Fund (NCUSIF). The Fund charges NCUSIF for these services on a monthly basis based upon actual usage. The cost of these services, which totaled \$7,920,297 for 1983, are reflected as a reduction of the corresponding expenses in the accompanying financial statements.

NOTES TO FINANCIAL STATEMENTS--CONTINUED

NATIONAL CREDIT UNION ADMINISTRATION - OPERATING FUND

NOTE E--COMMITMENTS

The Fund leases certain office space under a rental agreement which expires in November 1994. The agreement which does not include renewal options, provides for annual rent adjustments based on increases in the consumer price index. The remaining office space is rented on a month-to-month basis under leases held by the Government Services Administration. In addition, the Fund leases certain office equipment under operating leases. Rental charges for the year ended September 30, 1983 amounted to \$1,857,796, of which \$575,917 was reimbursed by NCUSIF.

The future minimum lease payments, as of September 30, 1983, are as follows:

1984	\$ 1,161,335
1985	1,231,476
1986	1,254,856
1987	1,254,856
1988	1,254,856
Thereafter	<u>6,550,629</u>
	<u>\$12,708,008</u>

Based on the present allocation factor, NCUSIF will reimburse the Fund for approximately 31% of the future lease payments.

NOTE F--RETIREMENT PLAN

Employees of the Fund participate in the Civil Retirement System which is a contributory defined contribution retirement plan. Contributions to the plan are based on a percentage of employees' gross pay. Pension contributions for the year ended September 30, 1983 were \$1,302,800, of which \$450,000 was reimbursed by NCUSIF.

Ernst & Whinney

1225 Connecticut Avenue, N.W.
Washington, D.C. 20036

202/862-6000

National Credit Union Administration Board
Washington, D.C.

We have examined the balance sheets of the National Credit Union Share Insurance Fund (Fund) as of September 30, 1983 and 1982, and the related statements of operations and fund balance for the year ended September 30, 1983. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As explained in Note C, prior to 1983, the Fund did not follow generally accepted accounting principles in providing for estimated losses relating to credit unions experiencing financial difficulties but not receiving cash assistance from the Fund, or any loss in excess of the amount of outstanding cash assistance with respect to those credit unions receiving cash assistance. At that time, the Fund considered it impracticable to accumulate the information necessary to make such provision. During the year ended September 30, 1983, the Fund changed to the generally accepted accounting method of providing for the aforementioned losses based on a case-by-case evaluation. In so doing, however, the Fund considered it impracticable to restate (as required under generally accepted accounting principles) the 1982 financial statements for this change and, consequently, the cumulative effect of the change as of October 1, 1982 (not separately determined) has been charged in the statement of operations and fund balance for the year ended September 30, 1983. Also, because the Fund has not yet accumulated sufficient historical loss experience data in support of the provision for these losses, we were unable to satisfy ourselves as to the amount thereof.

As explained in Note B, the Fund provides for estimated losses on asset and merger guarantees. Because the Fund has not yet accumulated sufficient data in support of the provision for these losses, we were unable to satisfy ourselves as to the amount thereof.

In our opinion, except for the effects of such adjustments as might have been necessary had the Fund accumulated the historical loss experience and other data necessary to restate the 1982 balance sheet, to remove the cumulative effect of the aforementioned accounting change from the 1983 statement of operations and fund balance and to support the amounts of the aforementioned losses, as referred to in the second and third

preceding paragraphs, the financial statements referred to above present fairly the financial position of the National Credit Union Share Insurance Fund at September 30, 1983 and 1982 and the results of its operations for the year ended September 30, 1983, in conformity with generally accepted accounting principles applied on a consistent basis except for the change, with which we concur, in the method of providing for estimated losses relating to credit unions experiencing financial difficulties but not receiving cash assistance from the Fund or losses in excess of the amount of outstanding cash assistance with respect to those credit unions receiving cash assistance.

The accompanying statement of operations and fund balance for the Fund for the year ended September 30, 1982 was not audited by us and, accordingly, we do not express an opinion on it. The 1982 statement of operations and fund balance does not include provisions relating to losses on credit unions identified as experiencing financial difficulties but not receiving cash assistance and any loss in excess of the amount of outstanding cash assistance with respect to those credit unions receiving cash assistance. Generally accepted accounting principles require that the Fund estimate and provide for the losses relating to these items. It is impracticable to determine the impact of this departure from generally accepted accounting principles.

Ernst & Weinberg

Washington, D.C.
November 30, 1983

BALANCE SHEETS

NATIONAL CREDIT UNION SHARE INSURANCE FUND

	September 30,	
	<u>1983</u>	<u>1982</u>
ASSETS		
Investments--Note D:		
U.S. Government securities	\$275,419,965	\$196,357,134
Other securities	<u>1,182,911</u>	<u>1,298,865</u>
	276,602,876	197,655,999
Accrued interest receivable	609,594	892,692
Advances to credit unions:		
Capital notes	28,225,744	11,150,828
Share deposits	<u>3,581,222</u>	<u>5,647,597</u>
	31,806,966	16,798,425
Assets acquired from credit unions, at estimated net realizable value:		
Liquidating credit union assets held	4,539,195	11,318,384
Receivers certificate	2,724,675	
Amounts due from bond claims	993,048	5,671,284
Real estate loans	941,462	854,846
Other loans	<u>31,080</u>	<u>40,166</u>
	9,229,460	17,884,680
Loans acquired under guarantee agreements	55,701	3,006,227
Cash	25,299	416,960
Other assets	<u>562,457</u>	<u>682,010</u>
	<u>\$318,892,353</u>	<u>\$237,336,993</u>
LIABILITIES AND FUND BALANCE		
Due to NCUA--Note G	\$ 344,321	\$ 8,948,773
Amounts due to insured credit union shareholders	3,903,709	9,608,316
Mortgage payable--Note E		2,275,294
Deferred insurance premium income	13,247,606	11,350,746
Estimated losses from supervised credit unions--Note C	43,832,556	10,484,822
Estimated losses on asset and merger guarantees	22,158,799	15,600,000
Other liabilities	<u>196,341</u>	<u>1,148,245</u>
	83,683,332	59,416,196
FUND BALANCE	<u>235,209,021</u>	<u>177,920,797</u>
	<u>\$318,892,353</u>	<u>\$237,336,993</u>

See notes to financial statements.

STATEMENTS OF OPERATIONS AND FUND BALANCE

NATIONAL CREDIT UNION SHARE INSURANCE FUND

	Year Ended September 30	
	1983	1982 (Unaudited)
REVENUE		
Insurance premiums:		
Regular	\$ 51,251,571	\$ 44,854,791
Special assessment	52,286,030	29,945,000
	<u>103,537,601</u>	<u>74,799,791</u>
Interest income	21,187,528	18,897,171
Other income	311,017	1,344,104
TOTAL REVENUE	<u>125,036,146</u>	<u>95,041,066</u>
EXPENSES		
Insured credit union losses	55,060,356	77,458,126
Administrative expenses--Note H:		
Employee benefits and wages	6,859,207	7,278,758
Travel expense	1,086,231	1,075,064
Facilities expense	1,159,169	1,134,501
Contracted services	636,203	834,639
Miscellaneous	574,109	490,434
TOTAL ADMINISTRATIVE EXPENSES	<u>10,314,919</u>	<u>10,813,396</u>
Collection expenses	577,224	1,820,484
Loss on sale of investments	1,795,423	1,805,591
TOTAL EXPENSES	<u>67,747,922</u>	<u>91,897,597</u>
Excess of revenue over expenses	57,288,224	3,143,469
Fund balance at beginning of year	<u>177,920,797</u>	<u>174,777,328</u>
FUND BALANCE AT END OF YEAR	<u><u>\$235,209,021</u></u>	<u><u>\$177,920,797</u></u>

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

NATIONAL CREDIT UNION SHARE INSURANCE FUND

NOTE A--ORGANIZATION AND PURPOSE

The National Credit Union Share Insurance Fund (Fund) was created by Public Law 91-468 (Title II of the Federal Credit Union Act). The Fund was established as a revolving fund in the Treasury of the United States under the management of the National Credit Union Administration (NCUA) Board for the purpose of insuring member accounts in all federal credit unions and in qualifying state credit unions that request insurance. The maximum amount of insurance is currently \$100,000 per member account.

The NCUA exercises supervisory authority over credit unions insured by the Fund. These credit unions are required to report certain financial and statistical information to the NCUA on a semiannual basis and are also subject to periodic examination by the NCUA. Information derived through the supervisory and examination process provides the Fund with the ability to identify credit unions experiencing financial difficulties that may require assistance from the Fund.

Credit unions experiencing financial difficulties may be assisted by the Fund in continuing their operations if the difficulties are considered by the Fund to be temporary or correctible. This may entail special assistance by the Fund in the form of waiver of statutory reserve requirements, reserve guaranties, and/or cash assistance. If continuation of the credit union's operations with Fund assistance is determined not to be feasible, a merger partner may be sought. If the assistance or merger alternatives are not considered practical, then the credit union is placed into liquidation.

In the first form of special assistance, waivers of statutory reserve requirements, the credit union is permitted to cease making additions to its regular reserve and, in more severe cases, to commence charging operating losses against its regular reserve. When all reserves have been depleted by the credit union, the Fund may allow the credit union to establish a noncash reserve guaranty account, whereby the credit union records a receivable from the Fund in the amount of its reserve deficit with a corresponding addition to reserves. When cash assistance to a credit union is considered necessary to keep it operating, the Fund may advance cash in the form of share deposits and capital notes to or purchase assets from the credit union.

Mergers of financially troubled credit unions with stronger credit unions may also require Fund assistance. Merger assistance is given in the form of cash assistance, purchase of certain assets by the Fund, and/or guarantees of the collectibility of certain assets (primarily loan portfolios).

When a credit union is no longer able to continue operating and the value of its assets is less than its members' shares and liabilities, the Fund will liquidate the credit union, dispose of its assets, and pay members' shares up to the insured maximum amount. The values of certain assets sold (primarily loans) are at times guaranteed to third-party purchasers by the Fund.

NOTES TO FINANCIAL STATEMENTS--CONTINUED

NATIONAL CREDIT UNION SHARE INSURANCE FUND

NOTE B--SIGNIFICANT ACCOUNTING POLICIES

Investments: Title II of the Federal Credit Union Act limits the Fund's investments to United States Government securities or securities guaranteed as to both principal and interest by the United States Government. Investments are stated at cost adjusted for amortization of premium and accretion of discount.

Advances to Credit Unions: The Fund provides cash assistance in the form of share deposits and capital notes to certain credit unions to assist them in continuing operations. At September 30, 1982, the allowance for estimated losses from supervised credit unions was limited to the amount of cash assistance outstanding and was included in the balance sheet as a reduction of advances to credit unions. As discussed below, effective October 1, 1982, the Fund began providing for total estimated losses from supervised credit unions. For comparative purposes, the 1982 allowance amount has been included with estimated losses from supervised credit unions.

Assets Acquired from Credit Unions: The Fund acquires the assets of liquidating credit unions pending their ultimate disposition. In addition, to assist in the merger of credit unions, the Fund may purchase certain credit union assets. Such assets acquired are recorded at their estimated net realizable value.

Loans Acquired under Guarantee Agreements: Loans acquired from third-party purchasers under guarantee agreements are carried at estimated net realizable value.

Estimated Losses from Supervised Credit Unions: Effective October 1, 1982, the Fund began providing for estimated losses on credit unions identified through the supervisory and examination process as experiencing financial difficulty but not yet liquidated or merged. Loss estimates are determined by management based on a case-by-case evaluation.

Prior to 1982, the Fund considered it impracticable to accumulate the necessary information and did not attempt to estimate potential losses from supervised credit unions experiencing financial difficulties but not receiving cash assistance or to the extent that any estimated loss would exceed the amount of outstanding cash assistance. Generally accepted accounting principles require that the Fund estimate and provide for the losses relating to these items.

Estimated Losses on Assets and Merger Guarantees: Estimated losses on assets (primarily loan) guarantees outstanding at September 30, 1983 made to third-party purchasers or made to credit unions to facilitate mergers were estimated by management based on a case-by-case evaluation. Estimated losses on similar guarantees outstanding at September 30, 1982 were estimated by management based on historical guarantee loss experience ratios. Guarantees outstanding at September 30, 1983 and 1982 were \$70 million and \$100 million, respectively.

NOTES TO FINANCIAL STATEMENTS--CONTINUED

NATIONAL CREDIT UNION SHARE INSURANCE FUND

NOTE B--SIGNIFICANT ACCOUNTING POLICIES--CONTINUED

Deferred Insurance Premium Income: The Fund assesses each insured credit union a regular annual premium of 1/12 of one percent of member share accounts outstanding as of December 31 of the preceding year. Regular annual premiums are recognized as income ratably during the calendar year in which they are assessed. Regular annual premiums assessed but not yet recognized as income are classified as deferred income.

Under certain conditions, the Fund is permitted to assess an additional premium, which annually may not exceed the regular annual premium. These special assessments are recognized income in the fiscal year in which they are assessed. Such special assessments were 1/12 and 1/18 of one percent in 1983 and 1982, respectively.

Reclassifications: Certain 1982 amounts have been reclassified for comparative purposes.

NOTE C--ESTIMATED LOSSES FROM SUPERVISED CREDIT UNIONS

At September 30, 1983, the Fund insured approximately \$78 billion of credit union member share accounts maintained at approximately 16,000 credit unions. At September 30, 1983, approximately 1,100 insured credit unions with approximately \$4.7 billion of share accounts have been identified through the NCUA supervisory and examination process as experiencing financial difficulties. As discussed in Note B, effective October 1, 1982, the Fund changed its method of accounting for estimated losses from supervised credit unions. This change to a method of providing for such losses in accordance with generally accepted accounting principles requires consistent application through restatement of the prior years' financial statements. However, since the Fund considered it impracticable to determine the effect on the 1982 and the prior years' financial statements, the cumulative effect of the change has been included in insured credit union losses for the year ended September 30, 1983.

NOTE D--INVESTMENTS

Investments consisted of the following at September 30:

	1983 Cost	1982 Cost
U.S. Government securities:		
U.S. Treasury bills	\$245,343,493	\$148,200,961
U.S. Treasury notes	15,880,842	34,804,177
U.S. Treasury bonds	9,565,017	13,351,996
Other Government Securities	4,630,613	-0-
	<u>275,419,965</u>	<u>196,357,134</u>
Israel notes, 9.75%, due 1994	1,182,911	1,298,865
	<u>\$276,602,876</u>	<u>\$197,655,999</u>
	<u>Market Value</u>	<u>Market Value</u>
	<u>\$273,188,350</u>	<u>\$192,067,790</u>

NOTES TO FINANCIAL STATEMENTS--CONTINUED

NATIONAL CREDIT UNION SHARE INSURANCE FUND

NOTE D--INVESTMENTS--CONTINUED

The Israel notes were acquired from a merged credit union and are guaranteed as to principal and interest by the U.S. Government. They have a sinking fund agreement through which a portion of the notes may be redeemed by the issuer each June 30.

NOTE E--MORTGAGE PAYABLE

As a result of the merger of two credit unions, the Fund obtained title to land and a building in exchange for a \$2,275,294 mortgage to the surviving credit union. The mortgage was paid in full during 1983. Related interest expense for the year ended September 30, 1983 was \$123,801.

NOTE F--AVAILABLE CREDIT

The Fund is authorized under the Federal Credit Union Act to borrow from the Treasury of the United States upon authorization by the NCUA Board to a maximum of \$100,000,000 outstanding at any one time.

The Central Liquidity Facility of the NCUA is authorized to make advances to the Fund under such terms and conditions as may be established by the NCUA Board.

No amounts were borrowed from these sources during 1983 or 1982.

NOTE G--TRANSACTIONS WITH NCUA

Substantial administrative services are provided to the Fund by the NCUA operating fund. NCUA charges the Fund for these services on a monthly basis based upon actual usage. The cost of services provided by the NCUA operating fund for the year ended September 30, 1983 was \$8,439,629.

NOTE H--RETIREMENT PLAN

Employees of the Fund participate in the Civil Service Retirement System which is a contributory defined benefit retirement plan. Contributions to the Plan are based on a percentage of employees' gross pay. Pension expense for the year ended September 30, 1983 was \$425,000.

(916593)



AN EQUAL OPPORTUNITY EMPLOYER

UNITED STATES
GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

OFFICIAL BUSINESS
PENALTY FOR PRIVATE USE \$300

**BULK RATE
POSTAGE & FEES PAID
GAO
PERMIT No. G100**